



# Cost Allocation Plan Guidelines

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This document was reviewed by a committee consisting of administrators and fiscal staff from various Missouri State Partnering Agencies and several local Workforce Investment Boards and determined by the committee to be in compliance with Federal and State statutes and regulations and is consistent with Missouri policies concerning cost allocation for the Workforce Investment Act of 1998. The document was approved for distribution by the Missouri Training and Employment Council on October 11, 2000.

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# Introduction

This guide is intended to provide guidance to managers and administrators who share office space or integrate services with other service providers; to negotiators who will represent the various agencies in establishing collocated and/or integrated services with local partners; and to the staff who will provide support to negotiators, managers, and administrators.

The guide addresses financial issues and is not intended to provide guidance about other programmatic issues. Generally partnerships involve each partner paying their own expenses. This is the least complex form of cost sharing (direct). However, as partnerships move toward program integration and seamless service delivery, cost sharing requirements become more intricate. This document goes beyond simple direct cost sharing, and provides a guide to joint/indirect cost allocation alternatives.

The contents of this guide enable Missouri Career Centers to comply with the Federal Office of Management and Budget's "Cost Principles for State, Local and Indian Tribal Governments" (OMB Circular A-87). The Circular establishes principles and standards for determining costs for Federal awards carried out through grants, cost reimbursement contracts and other agreements. The partners must comply with the Federal Cost Principles as set forth in OMB Circulars (A-21, A-87, A-110, A-122, and A-133) applicable to their type of organization. These can be found on the Internet at <http://www.whitehouse.gov/OMB/grants/index.html>. It is the intent to maintain compliance as simply as possible, without imposing undue administrative burdens on staff or partners, who may be subject to additional regulations.

The Missouri Career Centers are the gateway for the Workforce Development services at the local level through a "no wrong door" approach for employers, job seekers, and incumbent workers at comprehensive physical sites, at community-based access points, or electronically through virtual sites. Planning and implementation is an inclusive, collaborative process at all levels.

The guide covers policy, definitions, parameters, the negotiation process, written agreements, calculating each partner's share of joint/indirect costs, cost allocation, reporting, and adjustments.

Agreements may range from brief statements of program benefits to detailed cost-sharing agreements, depending on the nature of the partnership. The extent of documentation will be determined by the partnership negotiating team.

Because of various funding streams, a cost allocation plan will be developed for each Missouri Career Center to ensure that each partner bears its fair share of the costs of maintaining the center.

A glossary of terms and general definitions is incorporated in this document to clarify technical language.

# Chapter 1 – General Administration

The One-Stop operator and partners need to identify the total cost of operation. This should be detailed in a schedule identifying direct cost associated with each partner and indirect cost shared by each partner. The identification of costs and the funding in support of those costs are necessary to make Missouri Career Centers sustainable.

The partners must comply with the Federal Cost Principles set forth in OMB Circulars (A-21, A-87, A-110, A-122, and A-133). However, it is the Missouri Training and Employment Council's (MTEC) intent to maintain compliance, without imposing undue administrative burdens on Missouri Career Center partners.

## **Keep it Simple**

Use the most simple and least costly method possible, based on a measure of relative benefit received, that will produce an equitable allocation of costs to programs.

## **Make it Replicable**

The process that you develop must be replicable at any time.

## **Consider What is Required**

The required structure and capabilities of your accounting system must be considered in designing an operable cost allocation process.

## **Make Changes Prudently**

Changes in a partnership's cost allocation plan that result in a retroactive redistribution of costs to the benefiting cost objective are allowable where the change results in a more equitable distribution of costs. Such changes in allocation methodology should be rare, should receive the necessary prior approvals, and should be justified and well documented.

This guide groups costs into categories for the purpose of discussing cost allocation and cost pooling. Following is a brief description of each of these categories.

## Direct Costs

Costs charged directly to final cost objectives that do not require any further allocation or breakdown are assignable direct costs. Examples of assignable direct costs that are charged to the program include:

- Compensation paid to employees whose time is devoted specifically to the fulfillment of a particular program objective (for example, the adult education program staff providing basic skill instruction at the One-Stop);
- Costs of pre-approved items such as equipment, consultants, and subcontractors for performance of services specifically for the program; and
- Costs of any materials purchased specifically for a particular program.

## Joint Costs

Costs that cannot be readily assigned to a final cost objective, but which are directly charged to an intermediate cost objective or cost pool and subsequently allocated to final cost objectives are joint costs. These costs are incurred for a common or joint purpose benefiting more than one funding stream. An example of joint costs that are charged to the program include:

- Case management services to participants in all funding streams are provided by case management staff members of the center regardless of the staff's funding stream. It is difficult to identify time spent by case management staff by funding stream. Costs could be directly charged to a category for case managers and later distributed to the proper funding stream using an appropriate allocation method.
- Adult education program pays a fair share portion of the telephone and copier costs at the One-Stop when staff are collocated.

## Indirect Costs

Indirect costs are those: a) incurred for a common or joint purposes benefiting more than one cost objective, and b) not readily assignable to the cost objectives specifically benefited, without effort disproportionate to the results achieved. These costs include the costs of supplying goods, services, and facilities that benefit more than one program or department (for example, office supplies, janitorial services, utilities, common hallways, employee lunchrooms, etc.). Another example is the adult education program paying a fair share portion of office supplies used for all partners' program needs. Some method of allocation must be used to distribute the indirect costs to various direct activities that were benefited. To distribute indirect costs equitably and consistently, your organization will find it necessary to develop a cost allocation plan.

Because of the differences among organizations, it is impossible to classify costs that will be indirect in all situations. One rule, however, usually does apply universally: a cost may not be allocated as an indirect cost if that cost or any other cost incurred in the same circumstance and for the same purpose has already been assigned to the program as a direct cost.

## **Measuring Benefit**

Measuring benefit is the critical requirement and central task to be performed in allocating costs. Costs are allocable to a particular cost objective on benefits received by that cost objective. When the direct measurement of benefit cannot be done efficiently and effectively, then it is appropriate to pool the costs for later distribution. The allocation base is the mechanism used to allocate the joint/indirect costs to final cost objectives. Care should be taken to ensure that the basis chosen does not distort the results.

## **Allocability**

For a cost to be allocable to a particular cost objective, it must be treated consistently with other costs incurred for the same purpose in like circumstances. Any cost allocable to a particular grant or other cost objective under these principles may not be shifted to other Federal grants to overcome funding deficiencies, to avoid restrictions imposed by law or grant agreement, or for other reasons. Costs that are prohibited by a funding source may not be paid or used as offsets under a joint/indirect cost agreement.

## **Allowability**

To be allowable, a cost must be necessary and reasonable for the proper and efficient operation of the program. To reduce the risk of accumulating and being held accountable for disallowed costs, you should carefully review anticipated program expenditures, the terms and conditions of the award, and applicable regulations before any program costs are incurred.

## **Reasonableness**

For a cost to be reasonable under an award, it will not exceed that which would be incurred by a prudent person under the same circumstances. In determining the reasonableness of a given cost, consideration should be given to:

- Whether the cost is of a type generally recognized as ordinary and necessary for the operation of the organization or the performance of the award.
- The restraints or requirements imposed by such factors as generally accepted sound business practices, arms-length bargaining, Federal and state laws and regulations, and terms and conditions of the award.
- Whether the individuals concerned acted with prudence in the circumstances, considering their responsibilities to the organization, its members, employees, and clients, the public at large, and the government.
- Significant deviations from the established practices of the organization that may unjustifiably increase the award's costs.

## **Cost Allocation Steps**

Five basic steps are used to allocate costs. These include:

1. Identify services and cost to be allocated.
2. Determine allocation method.
3. Allocate and maintain documentation.
4. Report costs determined by plan.
5. Make sure it is auditable and in compliance.

The next several chapters will discuss these steps in more detail, but these are the basic steps to create a Cost Allocation Plan.

# Chapter 2 – Cost Allocation Plan

This section provides for general guidance on cost allocation procedures to ensure that costs are properly and equitably distributed to the benefiting cost objective.

The cost allocation plan is a document that identifies, accumulates, and distributes allowable direct and indirect costs under grants and contracts, and identifies the allocation methods used for distributing costs. A plan for allocating joint costs is required to support the distribution of those costs to the grant program. Formal accounting records to substantiate the propriety of the eventual charges must support all costs included in the plan.

It is a common misconception that cost sharing negotiations take place after the program framework has been established (for example, after the partners have discussed and agreed on program direction and operations for the project). In reality, program and cost considerations interact in the development process. For this reason, the involvement of appropriate partners' staff is critical for the success of the project. Any methodology used to develop a cost allocation plan must result in an equitable distribution of costs and not result in any partner paying a disproportionate share of the shared One-Stop costs.

These guidelines are intended to outline the minimum requirements associated with establishing a Cost Allocation Plan.

## I. Contents of a Cost Allocation Plan

Once joint/indirect costs to be shared among partners are identified, a basis of allocation must be agreed upon that is fair to benefiting programs, measurable, consistent, and supported by ongoing data collection. Different bases (See Section III, Step 4) may be used to allocate to different pools. A cost allocation plan is required to document the allocation process and is to include at least the following elements:

- Organization chart that identifies all partners, types of services provided, and staff functions.
- A description of the type of services and programs provided at the center.
- A copy of the operating budget that includes all costs to operate the center as agreed to in the MOU.
- The methods used in allocating the expenses to benefiting cost objectives. This requires identifying the basis for allocating each type of joint/indirect costs, and the documentation for supporting each basis for allocation.
- Certification by the One-Stop operator that the plan has been prepared in accordance with these guidelines.

## II. Cost Allocation Parameters

### **Fiscal Parameters**

Each partner must pay or offset its portion of joint/indirect costs in addition to paying its own direct costs.

The Missouri Career Centers cannot deviate from existing federal, state, and local regulations. Costs that are prohibited by a funding source (federal, state, or local) may not be paid or used as offsets under a joint/indirect cost agreement. For example, if a partner's funding source prohibits entertainment costs, the partner may not pay entertainment costs or use them as an offset under a joint/indirect cost agreement.

The preference is the use of direct costs over the use of joint/indirect costs whenever possible. Contributions to joint/indirect costs are limited to costs incurred during the period of operation (for example, purchases made during the period of the agreement). Intrinsic values, like the value of a building that has been fully paid for, may not be included in reimbursable or offsetting cost calculations.

Costs of capital improvements made for the benefit of the partnership or for an individual partner may be amortized during the term of the partnership.

Offsets are based on cost. In the case of staff, use actual salary and benefit costs in calculations, or number of staff and function performed. If different individuals will perform the function, then an average of their actual salaries and benefits may be used. Square footage will generally become the allocation basis for space. The cost per square foot becomes a joint/indirect cost that is a charge to the partners.

### **Operations Parameters**

A Cost Allocation Plan assigns costs accumulated in cost pools, which benefit entities/programs.

Equipment will be purchased and owned by individual partners in order to avoid inventory control/audit issues arising from joint ownership.

State and Federal permit postage may not be shared among programs or used as offsets. Commercial meter postage may be shared if an accounting system is established.

## III. Development of the Cost Allocation Plan

### **Step 1 – Classify Costs**

Cost classification is the process of labeling direct, joint, and indirect costs relative to the cost allocation process. The two categories are pooled for joint and indirect costs and non-pooled for direct costs.

### **Step 2 – Pool Costs**

Cost pooling is the process of accumulating costs into pools pending allocation to benefiting programs. Similar allocable costs, which may be combined to simplify the allocation process, should be pooled.

In cost pooling, the time and expense to isolate a cost and allocate by usage may cost more than the benefits derived from the process (for example, telephone charges). In this case, the cost should be combined and allocated with other costs in a consolidated larger pool.

The partners may decide the level of cost allocation within the pool. Cost items may be allocated individually or all cost items in the pool can be totaled and the total allocated. The decision will depend on the level of budget control required and program reporting requirements.

### Types of Cost Pools

- ◆ Facility Cost Pools:

A cost pool may be broad enough to benefit all collocated programs and integrated service cost centers. An example would be a pool where rent, utilities, janitorial, receptionist costs, phone and other facility overhead costs would be recorded.

- ◆ Categorical Cost Pools:

Some cost pools may contain only specific costs (telephone line charges) or type of costs (copier maintenance agreements, copy paper, toner, copier repair) because the benefits from the cost require a special allocation method due to unequal use or benefit across programs or cost centers. Examples may be computer information sharing, copier costs, or telephone.

- ◆ Organization Cost Pools:

Some expenditures may benefit only parts of a partnership. Examples are one integrated service area cost center as a pool for all the programs in that cost center or a pool for a sub-set of the programs within an integrated service area center.

- ◆ Collocated Cost Center Cost Pools:

Normally, a collocated partner will operate its own accounting system with its own cost pools and allocation methods. A Missouri Career Center partnership may combine more than one type of cost pool.

### **Step 3 – Allocable Costs**

To determine the allocation process, you must first understand the nature of the cost and how the benefits will be received.

There are four major requirements for a cost to be allocable.

1. A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.
2. All activities, which benefit from the governmental unit's direct costs, will receive an appropriate allocation of indirect costs.
3. Any cost allocable to a particular federal award or cost objective under the principles provided for in these guidelines may not be charged to other Federal awards to overcome fund deficiencies, to avoid restriction imposed by law or term of the Federal awards, or for other reasons. However, this prohibition would not preclude governmental units from shifting costs that are allowable under two or more awards in accordance with existing program agreements.

4. Where an accumulation of indirect costs will ultimately result in charges to a Federal award, a cost allocation plan will be required.

#### **Step 4 – Select Allocation Bases**

##### **Allocation Bases**

When costs are pooled for joint/indirect costs instead of directly assigned to a final cost objective, the ability to directly assign benefit for each item of cost is lost. Instead, the pool contains a group of common costs to be allocated by using an indirect or approximate measure of benefit. The approximate measure of benefit is the allocation base. An allocation base is the method of documentation used to measure the extent of benefits received when allocating joint cost among multiple partners.

##### **Minimal Distortion**

The base should be distributing costs in a fair and equitable manner without distorting the results. This requires that the base be as casually related as possible to the types of costs being allocated so that benefit can be measured as accurately as possible.

##### **General Acceptability**

The base should be generally accepted and in conformance with Generally Accepted Accounting Principles (GAAP). For example, it should be consistently applied over time. The base should also be drawn from the same period in which the costs to be allocated have been incurred.

##### **Represents Actual Costs or Effort Expended**

The base should be a measure of actual cost or actual effort expended. It should not be based solely on a plan, budget, job description, or other estimates of planned activity.

##### **Timely Management Control**

The base should be within management's ability to control on a timely basis. The base should produce reliable and fairly predictable results. If the base is erratic and unpredictable, beyond management's ability to control, or not timely, it is likely to produce unacceptable results.

##### **Consistency with Variations in Funding**

The base must be able to accommodate and withstand changes in funding during the year and from year to year. If the base excludes factors that are affected by variations in funding, it will produce distorted results.

##### **Materiality of Costs Involved**

The complexity of the base should be commensurate with the materiality of the costs to be allocated. The base should be sufficiently detailed to provide the most equitable and accurate allocation possible. At the same time, the base should be simple enough to be efficient while still attaining a fair distribution of costs.

## **Practicality and Cost of Using the Base**

The base should be as efficient as possible in terms of the cost or effort in developing it. Thus, whenever possible, use a database that already exists in the financial or participant record keeping and reporting systems rather than create a separate database to be used only for allocating costs.

Cost allocation methods vary, just as cost types do. The objective of the method used is to ensure reasonableness and equity. Your organization is likely to use several different bases for allocating different types of costs. Once your organization establishes the methods of allocation, that method should be used consistently over time and be described in your cost allocation plan. The following are examples of various cost allocation bases options to be used in the allocation process.

### **Space Allocation – Square Footage**

Fits facility-wide costs such as rent, utilities, and janitorial. Programs or service area cost centers benefit from those costs in proportion to the work area (square feet), and, in some cases, usage. Other costs that benefit all occupants of the facility, such as copier maintenance, receptionist's salary, etc. may also be allocated using this basis. This assumes a correlation between square feet allotted to a partner and number of staff benefiting from those costs.

**Pros:** Reliable, consistent, easy to calculate, easy to budget, easy to use.

**Cons:** Cannot be used for all costs.

### **Personnel Allocation – Time Distribution**

Can be used to allocate any cost where partners benefit from costs in proportion to the staff time worked on them. To use this process, there must be a documented time distribution system. With a time distribution system, costs flow to the area of work emphasis, which normally correlates to funding. This system works well with budget because it creates a cost per position relation for expenditures.

**Pros:** Reliable, good budget control, well-accepted cost allocation standard, provides abundant management information.

**Cons:** Requires a time distribution system; not all partners may be willing to record time. With multiple agencies employing staff, time collection would be cumbersome with automation. With many projects, recording time correctly may be a problem.

### **Allowable Survey Methods – Usage**

Equipment costs, such as copiers, computer, etc., may be used disproportionately by some programs and require allocation methods other than work area or time. This would require some usage logs, such as number of copies. This could be time consuming and expensive for one item of cost like copier maintenance and supplies. A decision must be made whether the gains in fair distribution of costs from this more precise allocation would be material enough to support the extra expense of collecting information and distributing the costs.

**Pros:** Precise for categorical costs.

**Cons:** Can be cumbersome and expensive to manage.

## Participants Served

This basis uses a point-in-time snapshot of the number of active participants served at the site by each partner's program. It is based on the assumption that the number of participants' correlate to the benefits derived by each partner. Depending on the partnership structure, one participant receiving services from more than one partner may be counted more than once.

**Pros:** It is a reliable reflection of benefit derived and can be used for a large pool of costs.

**Cons:** May not be the best measure for some costs, such as facility. There is potential liability for unexpected partner costs when partners do not achieve projected performance levels. Requires common partner participant counting method, and onsite accounting system for participant tracking, monthly billing, and collection. Will work best with agreements longer than one year where sufficient time exists to adjust for current year, and recover for previous year, deficiencies. The use of this allocation basis is not precluded, but unresolved issues make its immediate use very difficult. Some of the examples that follow use Participants Served as the basis of allocation when other options are not appropriate.

## Units of Service

Each partner counts participants they served as units of service. The total of all partner's units of service will be more than the total people served. (More than one partner may serve the same person.)

**Pros:** It is a reliable reflection of benefit derived and can be used for a large pool of costs.

**Cons:** Same as above for **Participants Served**. However, it is important to remember that this is used for the participants served in each program and that some participants may be served in more than one program. The number of Unites of Service will be larger than the number of Participants Served.

Other bases to be considered are references in Table 1.

**Table 1**

This table shows some of the bases that may be used for allocating costs. However, the method used must be fair and equitable.

Cost Type	Direct Cost	Space Allocation	Personnel Allocation		Units of Service	Number of Customers	Allowable Survey Methods
			Of Staff (FTE)	Of Service			
Copiers	X		X	X			X
Data Lines	X		X	X			X
Equip Maintenance	X		X	X			X
Janitorial	X	X	X	X	X	X	X
Other Operating Costs	X	X	X	X	X	X	X
Postage	X		X	X			X
Printing	X		X	X			X
Receptionist Staff	X		X	X	X	X	X
Rent	X	X	X	X	X	X	X
Resource Room	X	X	X	X	X	X	X
Supplies	X		X	X	X		X
Telephone	X		X	X			X
Utilities	X	X	X	X	X	X	X

The operating budget and allocation plan must be revisited at least once annually. The method and bases of allocation must be consistent and must have a consensus of all partners in order to change.

# Chapter 3 – Calculating Each Partner’s Estimated Share of Pooled Joint/Indirect Costs

It is critical that each partner’s estimated and actual shares of pooled joint/indirect costs, contributions, and related calculations be documented and attached to the written agreement. This data will form the audit trail. Actual costs and numbers of participants served must be reviewed at least quarterly. Changes to reimbursement arrangements may be needed due to unexpected variations in costs or in the percentage of participants served.

The following provides examples of calculating partners’ shares.

Once you have selected one or more allocation bases, you are ready to estimate each partner’s share of pooled joint/indirect costs. The following example illustrates cost estimates based on square footage for pooled joint/indirect facility costs and number of projected participants for pooled joint/indirect supplies and salary costs.

## Assumptions

- The partnership will not be a separate employer, and will have no funds of its own. All staff, including the office manager, intake workers, and receptionist, will be employees of one or another of the partners. Also, all purchases made or services ordered for individual partners will pay for this site.
- One partner compiles all the fiscal records, and each partner pays their own bills.
- One of the partners already leases a suitable building. Utilities are included in the lease. The other two partners will move staff and some furniture and equipment to this site.
- The partners have pooled joint/indirect costs for the lease and janitorial services. They have allocated these costs among themselves based on square footage occupied.

EXAMPLE – FACILITY POOL	
Janitorial Service	\$21,600
Rent (including Utilities)	\$20,000
Total	\$41,600

EXAMPLE – ALLOCATION BASIS – FACILITY POOL				
	Square Feet		Percent	Planned Share of Annual Costs
Partner 1	625	625/2500	25%	\$10,400
Partner 2	875	875/2500	35%	\$14,560
Partner 3	1000	1000/2500	40%	\$16,640
Total	2500		100%	\$41,600

### Assumptions

- The partner who leases the building has a telephone system in place.
- In addition to equipment brought by the partners, the partnership will need a high volume copier, supplies and maintenance contract, fax machine, supplies, etc.
- The office supply system will benefit all partners and will be part of a cost pool
- Issues such as copier replacement and marginal costs for compatibility in phone systems are not addressed.

EXAMPLE – SUPPLIES	
Copier Supplies	\$5,000
Fax Supplies	\$1,400
Office Supply System	\$2,400
Total	\$8,800

One partner provides for an office manager onsite who oversees daily operations and also a receptionist and two intake workers, which benefit all three partners. These salaries are also part of the cost pool.

EXAMPLE – SALARY AND BENEFITS	
Office Manager	\$70,000
Intake Staff (2)	\$60,000
Receptionist	\$22,600
Total Salary and Benefits	\$152,600
Total Supplies	\$ 8,800
Grant Total (equipment, salary, and benefits)	\$161,400

### Projected Participants

- Project the number of participants for each program.
- Calculate each partner's percentage of total projected participants.
- Calculate each partner's share of cost based on percentage.

For planning purposes, the partners are using historical data to estimate the number of participants who will be served.

EXAMPLE – SUPPLIES AND SALARY POOL				
	Expected Participants or Units of Service		Percent	Planned Share of Annual Costs
Partner 1	400	400/2000	20%	\$32,280
Partner 2	600	600/2000	30%	\$48,420
Partner 3	1000	1000/2000	50%	\$80,700
Total	2000		100%	\$161,400

Adding the results of the two charts together gives the total each partner plans to pay or contribute as its share of pooled joint/indirect costs.

EXAMPLE		
Partner 1	Facility Pool	\$10,400
	Supplies and Salary Pool	\$32,280
	Total	\$42,680
Partner 2	Facility Pool	\$14,560
	Supplies and Salary Pool	\$48,420
	Total	\$62,980
Partner 3	Facility Pool	\$16,640
	Supplies and Salary Pool	\$80,700
	Total	\$97,340

Continuing with the example, the pooled joint/indirect costs for the lease and janitorial services (the facility pool) total \$41,600. The remaining pooled joint/indirect costs (the supplies/salary pool) total \$161,400. This partnership hopes to minimize the payment of cash among the partners, and has worked out the following plan for offsetting costs.

EXAMPLE – OFFSETTING PARTNER CONTRIBUTIONS			
	Contribution	Cost	Total
Partner 1	Fax Supplies	\$1,400	
	Office Supplies	\$2,400	
	Intake Specialists	\$30,000	
	Reimbursable Contracts	\$8,800	
	Total		\$42,680
Partner 2	Copier Supplies	\$5,000	
	Intake Specialists	\$30,000	
	Receptionists	\$22,600	
	Reimbursable Contracts	\$5,380	
	Total		\$62,980

EXAMPLE – OFFSETTING PARTNER CONTRIBUTIONS (CONTINUED)			
	Contribution	Cost	Total
Partner 3	Janitorial Service	\$21,600	
	Rent (Including Utilities)	\$20,000	
	Office Manager	\$70,000	
	Reimbursement from Partner 1 and Partner 2	(14,260)	
	Total		\$97,340
	Grand Total		\$203,000

# Chapter 4 – Establishing Payment Agreements

Each partner will pay its share of pooled joint/indirect costs determined to be allocable.

A decision must be made about who pays the bills. This partners' decision should be based on who acts as the fiscal agent and maintains the related records. This can be done by several options, including:

- Determine if one partner acts as fiscal agent to pay bills and maintain related records, or
- Determine if each partner pays designated bills and maintains related records.

In addition to determining who pays the bills, you should decide how the bills would be paid. There are two methods by which partners can pay: actual exchange of money and cost offsets. These two methods may be combined. Whatever option is adopted will result in use of staff time that benefits all partners and should be allocated to all partners.

# Chapter 5 – Information Accumulation and Reporting

As the result of the preceding steps, you now have estimates of the pooled joint/indirect costs and the percentage each partner will pay. At this point reporting systems must be established to capture actual data for the basis of allocation you selected, and actual expenditures.

This chapter illustrates accumulation and reporting for those costs allocated based on participants served or units of service. Data from multiple accounting systems may need to be merged to display the partnership's financial information.

NOTE: For purposes of this example, the square footage occupied by each partner does not change during the reporting period, and the facility related costs exactly match the estimate.

A. Record the number of participants served by each partner.

1. Calculate the number of projected participants this month. For the purposes of this example, projected annual participants are divided by 12. In practice, the number of projected participants may vary from month to month. (Step 1)
2. Record the actual number of participants served this month by each partner. (Step 2)
3. Calculate the percentage of participants served by each partner. (Step 3)

Partner	Projected Annual Participants or Units of Service	Projected Participants or Units of Service This Month Step 1	Actual Participants or Units of Service This Month Step 2	Step 3	Percent of Total
1	400	33	20	20/188	11%
2	600	50	65	65/188	34%
3	1000	83	103	103/188	55%
Total	2000	167	188		100%

B. Record actual expenditures.

Assumptions:

The partners that purchased supplies show the entire cost of each item in their own financial records during the first month, but the partnership is expensing the equipment cost over a 12 month period.

The partner who bought the supplies got a small discount, which is deducted from the total cost of the supplies before the monthly actual expenditure was recorded in Step 5.

1. Determine the projected monthly expenditure for each cost in the equipment and salary pools (for example, divide projected annual cost by 12). (Step 4)
2. Record the actual expenditure for the month. (Step 5)

Joint/Indirect Item	Annual Cost	Monthly Projected Expenditure Step 4	Actual Expenditure This Month Step 5
<b>Supplies</b>			
Copier Supplies	\$5,000	\$417	\$450
Fax Supplies	\$1,400	\$117	\$117
Office Supplies	<u>\$2,400</u>	<u>\$200</u>	<u>\$250</u>
Totals	\$8,800	\$734	\$817
<b>Salary and Benefits</b>			
Office Manager	\$70,000	\$5,833	\$5,833
Intake Staff (2)	\$60,000	\$5,000	\$5,000
Receptionist	<u>\$22,600</u>	<u>\$1,883</u>	<u>\$1,883</u>
Totals	\$152,600	\$12,716	\$12,716
<b>Total Supplies/Salary</b>	<b>\$161,400</b>	<b>\$13,450</b>	<b>\$13,533</b>

At the conclusion of each month, partners should review actual data for the basis or bases of allocation selected and apply the result to actual expenditures. This is done because each partner's share of the pooled joint/indirect costs is determined by the basis of allocation that was selected.

Because each partner's square footage has not changed during the report period, actual costs are the same as estimated costs for the facility pool, as illustrated in the following chart.

Partner	Projected annual facility costs	Projected facility costs this month	Actual facility costs this month
1	\$10,400	\$867	\$867
2	\$14,560	\$1,213	\$1,213
3	\$16,640	\$1,387	\$1,387
Total	\$41,600	\$3,467	\$3,467

The next chart applies each partner's percentage of participants served to the actual expenditures in the equipment/salary pool.

Partner	Actual Participants this Month	Percent of Total	Share of supplies and salaries based on actual participants served
1	20	11%	\$1,489
2	65	35%	\$4,601
3	103	55%	\$7,443
Total	188	100%	\$13,533

Combining information from the two charts yields each partner's share of actual costs for the report period.

			Total
Partner 1	Facility Pool	\$867	
	Supplies and Salary Pool	\$1,489	\$2,356
Partner 2	Facility Pool	\$1,213	
	Supplies and Salary Pool	\$4,601	\$7,010
Partner 3	Facility Pool	\$1,387	
	Supplies and Salary Pool	\$7,443	\$8,830
		Grand Total	\$18,196

The actual bills are paid based on agreements reached regarding reimbursements and offsets.

Making adjustments is simpler at the collocation end of the continuum and becomes more complex as services are integrated.

Currently, federal regulations do not provide for a "range of tolerance" (flexibility). Each partner is accountable for paying costs based on its share of benefit derived. In our example, Partner # 1 projected serving 20 percent of the participants; since the actual numbers indicate 11 percent, Partner # 1 pays 11 percent of the expenditures in the supplies/salary pool. Partner # 3 projected serving 50 percent, and the actual numbers indicate 55 percent. Partner # 3 pays 55 percent of the expenditures in the supplies/salaries pool.

Monthly monitoring of operating reports will allow the partners to see when actual benefits derived and/or actual expenditures vary from their projections. Financial and/or service plans must be adjusted accordingly. As actual expenditures are made, offset plans also must be monitored and adjusted so that partners do not owe each other money at the conclusion of the partnership agreement. Adjustments should be done no less than quarterly, more frequently if the variances are large.

Variances must be resolved during the term of the partnership agreement or prior to project closeout.

# Glossary of Terms and General Definitions

**Allocation Basis** – A calculation of a measure that best determines the benefits provided to a cost objective or program (for example, percentage of building used, percentage of participants served).

**Categorical Cost Pool** – Some cost pools may contain only specific costs (telephone line charges) or type of costs (copier maintenance agreement, copy paper, toner, copier repair) because the benefits from the cost require special allocation methods due to unequal use or benefit across programs or cost centers. Examples may be computer information sharing, copier costs, telephone, etc.

**Collocated Cost Center Cost Pool** – Normally, a collocated partner will operate its own accounting system with its own cost pools and allocation methods.

**Collocated Services** – Services that are provided in a single location but identified with individual partners are considered collocated services. A customer would be directed to a particular section of the office for placement (for example, the community college section for vocational assessment, and a community-based organization's section for workshops). Contrast "integrated services".

**Collocation** – A situation in which a single facility is occupied by more than one service provider, or in which more than one service provider has a presence (physically or electronically).

**Cost Allocation Plan (CAP)** – A plan for identifying cost associated with programs. The plan describes the programs for which cost data is needed, the methodology for identifying program-specific costs, and the techniques used to accumulate cost data.

**Cost Center** – A commonly accepted business term used to indicate a pool, center, or area established for the accumulation of cost(s), such as organizational units, functions, objects or items of expense, as well as ultimate cost objectives, including specific titles, cost categories, grant/awards, program activities, projects, contract, and/or other activities.

**Cost Pool** – An accounting structure to accumulate costs pending distribution by allocation to benefiting cost centers and/or programs.

**Direct Costs** – Costs that benefit and are directly recorded to one program. Common examples are training costs, supportive services and salaries paid by the benefiting program. A cost may be direct in some circumstances and joint/indirect in others.

**E & E** – State of Missouri term for Expense and Equipment used for supplies and office expenses.

**Facility Cost Pool** – A cost pool may be broad enough to benefit all collocated programs and integrated service cost centers. An example would be a pool where rent, receptionist costs, utilities, janitorial phone and other facility overhead costs would be recorded.

**Full Time Equivalent (FTE)** – A measurement of time paid to employees. One FTE – 2,080 hours of time paid based on a 40 hour work week.

**GAAP** – Generally Accepted Accounting Principles that guide accounting systems.

**Integrated Services** – Contrast “collocated services”.

- Assigning staff from partner agencies to integrated interagency functional teams, as allowed under current law and policy and as resources permit (for example, staff for assessment, job placement, job development, workshops, training or counselors/case managers, etc.).
- Having partner agencies specialize in the delivery of particular functions as part of integrated local service delivery (for example, one partner runs the assessment center, another runs the employment resource center).

**Joint/Indirect Costs** – Shared costs, such as rent, utilities, and phone, which cannot be readily assigned because they benefit multiple programs, service areas, or funding sources (for example, resource areas and conference rooms) may be considered joint/indirect costs. These accumulated costs are periodically (monthly or quarterly) allocated based on an agreed upon measure of benefit (time distribution, square footage, number of participants, etc.).

**Missouri Career Center** – A service point that meets the criteria established for Missouri Career Centers.

**Multiple Funding Streams** – More than one funding source with more than one set of governing standards.

**Organizational Cost Pool** – Some expenditures may benefit only parts of a partnership. Examples are one integrated service area cost center as a pool for all the programs in that cost center (as in Planning Example 2, Joint/Indirect Cost Centers 1 and 3), or a pool for a subset of the programs within an integrated service area cost center.

**Partnership** – Collaboration among service providers that results in coordinated services to a community.

**Partnership Planning Worksheet** – A standard format for use by potential partners, intended to lie out the preliminary program, automation, and facility needs of a partnership. It is a planning worksheet only, and does not imply contractual agreement.

**Partnership Resource Agreement** – Formal document that describes the framework of the partnership, including but not limited to, identify of collocated partners, services to be provided, program goals and objectives, functional plans, funding source, cost pooling, payment, adjustment, and reimbursement agreements among partners. It is usually developed as a rider to a lease or sub-lease agreement.

**Personal Service** – State of Missouri term for staff salary and fringe benefits.

**Program** – A grant, appropriation, or other designated fund whose activities – including costs – must be accumulated and reported to the funding sources. For example, Food Stamp Employment and Training, OVR, Wagner-Peyser 90%, WIA Titles, etc.

**Project Management System** – Computerized software for the purposes of tracking project time and activities.

**Range of Tolerance** – Degree of acceptable flexibility or discrepancy between projected costs and actual costs. (Current federal regulations do not provide for a “range of tolerance”.)

**Time Sheet Reporting** – Time sheet reporting involves the manual maintenance of daily records of time spent on programs and activities.

**Variance** – Degree of difference, divergence or discrepancy between the actual costs and the expected or projected costs.

# Web Pages

## [U.S. Department of Labor](#)

<http://www.dol.gov/>

## [U.S. Office of Management and Budget \(OMB\)](#)

<http://www.whitehouse.gov/OMB/grants/index/html>

## [U.S. Department of Education](#)

<http://www.ed.gov/>

## [Presidential Task Force on Employment of Adults with Disabilities](#)

<http://www.dol.gov/dol/sec/public/programs/ptfead/main.htm>

## [Missouri State Home Page](#)

<http://www.state.mo.us>

## [U.S. Department of Labor / Employment and Training Administration – Region 5](#)

<http://www.region05.doleta.gov/home/index.cfm>

## [U.S. Department of Health and Human Services](#)

<http://www.hhs.gov/>

## [Information of the Workforce Investment Act](#)

<http://www.usworkforce.org/wia/>

# Selected Unallowable Cost Items - Determined by OMB Circulars A-87, A-21, and A-122

<b>Selected Cost Items</b>	<b>A-87 State, Local and Indian Tribal Government</b>	<b>A-21 Educational Institutions</b>	<b>A-122 Non-Profit Organizations</b>
Advertising and Public Relations	Allowable with restrictions – (2)	Allowable with restrictions – (1)	Allowable with restrictions – (1)
Alcoholic Beverages	Unallowable – (4)	Unallowable – (2)	Unallowable – (2)
Alumni Activities	Not Applicable	Unallowable – (3)	Not applicable
Audit Services	Allowable with restrictions – (5) and as addressed in OMB Circular A-133	Allowable with restrictions and as addressed in OMB Circular A- 133	Allowable with restrictions and as addressed in OMB Circular A- 133
Civil Defense (local)	Not addressed	Allowable with restrictions – (5)	Not addressed
Commencement and Convocations	Not applicable	Unallowable – (6)	Not applicable
Compensation – Institution Automobile	Not addressed	Unallowable – (8.g)	Unallowable – (7.g)
Contingencies	Unallowable – (12)	Unallowable – (9)	Unallowable – (8)
Defense & Prosecution of Criminal and Civil Proceedings	Allowable with restrictions – (14)	Allowable with restriction – (11)	Allowable with restrictions – (10)
Donations and Contributions	Unallowable – (13)	Unallowable – (13)	Unallowable – (9,12)
Entertainment	Unallowable – (18)	Unallowable – (15)	Unallowable (14)
Fines and Penalties	Allowable with restrictions – (20)	Allowable with restrictions – (18)	Allowable with restrictions – (16)
General Government Expenses	Unallowable – (23)	Not applicable	Not applicable
Goods or Services for Personal Use	Not addressed	Unallowable – (19)	Unallowable – (18)
Housing and Personal Living Expenses	Not addressed	Unallowable – (20)	Unallowable – (19)
Idle Facilities	Allowable with restrictions – (24)	Not addressed	Allowable with restrictions – (20)
Insurance and Indemnification	Allowable with restrictions – (25)	Allowable with restrictions – (21)	Allowable with restrictions – (22)
Interest, Fund-Raising and Investment	Allowable with restrictions – (21,26)	Allowable with restrictions – (22)	Allowable with restrictions – (23)
Lobbying	Unallowable except at State/local level – (27)	Unallowable – (17,24)	Unallowable – (25)

Losses on Other Sponsored Programs	Unallowable – (42)	Unallowable – (25)	Unallowable – (26)
Memberships, Subscriptions and Professional Activities	Allowable with restrictions – (30)	Allowable with restrictions – (28)	Allowable with restrictions – (30)
Organizational Costs	Not addressed	Not addressed	Allowable with prior approval – (31)
Patents	Not addressed	Allowable with restrictions- (29)	Allowable with restrictions – (35)
Pre-Agreement Costs	Allowable with restrictions – (32)	Allowable with restrictions – (31)	Allowable with restrictions – (38)
Publication and Printing	Allowable – (35)	Not addressed	Allowable with restrictions – (41)
Recruiting Costs	Allowable with restrictions – (2)	Allowable with restrictions – (37.b)	Allowable with restrictions – (44)
Relocation Costs	Not addressed	Allowable with restrictions – (37.b)	Allowable with restrictions – (45)
Selling and Marketing	Not addressed	Unallowable – (42)	Unallowable – (48)
Severance Pay	Allowable with restrictions – (11.g)	Allowable with restrictions – (43)	Allowable with restrictions – (49)
Student Activity Costs	Not applicable	Unallowable – (45)	Not applicable
Taxes	Allowable with restrictions – (39)	Allowable with restrictions – (46)	Allowable with restrictions – (51)
Termination Costs	Not addressed	Allowable with restrictions – (49)	Allowable with restrictions (52)
Travel – First Class	Unallowable – (41)	Unallowable – (48)	Unallowable – (55)
Trustees	Not applicable	Allowable – (50)	Allowable – (56)
Under Recovery of Costs on Federal Agreements	Unallowable – (42)	Unallowable – (25)	Unallowable – (22)

## Selected Cost Items Not Treated the Same Among the Circulars

<b>Selected Cost Items</b>	<b>A-87 State, Local and Indian Tribal Government</b>	<b>A-21 Educational Institutions</b>	<b>A-122 Non-Profit Organizations</b>
Advertising and Public Relations	Allowable with restrictions – (2)	Allowable with restrictions – (1)	Allowable with restrictions – (1)
Bad Debts	Unallowable unless provided in program regulations – (7)	Unallowable	Unallowable – (3)
Bonding	Allowable – (8)	Not addressed	Allowable – (5)
Civil Defense (local)	Not addressed	Allowable with restrictions – (5)	Not addressed
Compensation – for Personal Service	Unique criteria for support – (1)	Unique criteria for support – (8)	Unique criteria for support – (7)
Defense and prosecution of Criminal and Civil Proceedings	Allowable with restrictions – (14)	Allowable with restrictions – (11)	Allowable with restrictions – (10)
Goods or Services for Personal Use	Not addressed	Unallowable – (19)	Unallowable – (18)
Housing and Personal Living Expenses	Not addressed	Unallowable – (20)	Unallowable – (19)
Idle Facilities	Allowable with restrictions – (24)	Not addressed	Allowable with restrictions – (20)
Interest, Fund-Raising and Investment	Allowable with restrictions – (21, 26)	Allowable with restrictions – (22)	Allowable with restrictions – (23)
Lobbying	Unallowable except at State/local level – (27)	Unallowable – (17, 24)	Unallowable – (25)
Memberships, Subscriptions and Professional Activities	Allowable for civic, community and social organizations with Federal approval – (30)	Unallowable for civic, community and social organizations -- (28)	Civic, community – prior approval Country, social dining – unallowable – (30.d and .e)
Organizational Costs	Not addressed	Not addressed	Allowable with prior approval – (31)
Patents	Not addressed	Allowable with restrictions – (29)	Allowable with restrictions – (35)
Professional Services Costs	Allowable with restrictions – (33)	Allowable with restrictions – (32)	Allowable with restrictions – (39)
Proposal Costs	Allowable with restrictions – (34)	Allowable with restrictions – (34)	Not addressed
Publication and Printing	Allowable – (35)	Not addressed	Allowable with restrictions – (41)
Recruiting Costs	Allowable – (35)	Allowable with restrictions – (37.b)	Allowable with restrictions – (44)
Relocation Costs	Not addressed	Allowable with restrictions – (37.b)	Allowable with restrictions – (45)

Royalties	Not addressed	Allowable with restrictions – (39)	Allowable with restrictions – (47)
Selling and Marketing	Not addressed	Unallowable – (42)	Unallowable – (48)
Specialized Services Facilities	Not addressed	Allowable with restrictions – (44)	Allowable with restrictions – (50)
Substantial Relocation – Interest Provision	Possible adjustment if relocated within useful life – (26)	Possible adjustment if relocated within 20 years – (22)	Possible adjustment if relocated within 20 years – (23)
Taxes	Allowable with restrictions – (39)	Allowable with restrictions – (46)	Allowable with restrictions – (51)
Termination Costs	Not addressed	Allowable with restrictions – (49)	Allowable with restrictions – (52)
Training	Allowable for employee development – (40)	Allowable – (8.f)	Allowable with limitations – (53)
Travel	Allowable with restrictions – (41)	Allowable with restrictions – (48, 50)	Allowable with restrictions – (55)